

**Comptroller's Directive No. 2-04**  
**Attachment 7**  
**Schedule of Inventory on Hand at June 30**

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**Purpose** This attachment is used to gather financial information for reporting materials and supplies inventory on hand at June 30 in the CAFR. This attachment is similar to prior year's Attachment 7.

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**Applicable agencies** Agencies with supplies and materials exceeding \$1,000,000 that are not reported in a financial statement template must complete this attachment.

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**Due date** **August 5, 2004**

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**Submission requirements** Contact DOA if the agency has any problems with the files.

**After downloading the files, rename the spreadsheet using the agency number followed by Att7.** For example, agency 151 should rename the Attachment 7.xls file as 151Att7.xls.

**Submit the excel spreadsheet electronically to [finrept@doa.virginia.gov](mailto:finrept@doa.virginia.gov).**

**Copy APA via E-mail to [APAFinRept@apa.state.va.us](mailto:APAFinRept@apa.state.va.us).**

**Do not submit paper copies of the excel spreadsheet.**

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**Attachment revisions** If attachment revisions are made subsequent to DOA acknowledgement of receipt and acceptance of the original attachment submission, **resubmit the revised attachment AND complete the [Revision Control Log Tab](#) in the attachment excel file.**

Enter the revision date, applicable excel file tab name, row number and column letter revised, and the previous and revised information. Document text changes and numerical changes. Only enter changes for amounts actually keyed. For example, if a non-keyed, calculated total changes as a result of the revision, this does not need to be documented on the Revision Control Log.

If the attachment is revised more than once, do not delete control log revision information from the previous revision. Enter the new revision date and the additional revisions in the rows following the initial revision rows. This log should document all revisions from the initial attachment submission.

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**Examples of  
inventory**

Examples of materials and supplies inventory include office supplies, clothing for inmates or patients, and food stock.

The following items should **not** be included in inventory.

- Consigned inventory
- Audiovisual equipment
- Donated food

**Control  
procedures**

Control procedures are required regardless of materiality. If a physical count is necessary, contact DOA, as needed, for guidance and inform the agency's APA contact of inventory count dates.

**Completing  
attachment**

Instructions for completing this attachment are in the following tables.

Step	Action
1	If the agency has inventory, ensure the agency has procedures to identify, control, and safeguard inventory as follows. <ul style="list-style-type: none"><li>• Appropriate access to inventory by employees</li><li>• Proper segregation of duties in the inventory process, from purchasing to distribution to users</li><li>• Secure location for storing inventory</li><li>• Adequate insurance coverage for inventory</li></ul>
2	Determine the value of inventory, either through a physical count or other acceptable means. See the following table for more details on <b>determining value</b> .
3	<b>The attachment is designed to only require keying in the shaded yellow cells.</b> Type the agency number on the first yellow cell of the attachment. After you hit enter, the agency name and prior year balance will be filled in automatically. Enter the agency contact information.
4	Complete the remainder of the attachment. Use whole numbers for all entries. The total dollar amount of inventory on hand will be automatically entered into the appropriate cell and the variance will be calculated.
5	A fluctuation analysis is required for variances <u>greater than \$1,500,000 AND 10% over/under prior year amounts</u> . If a fluctuation analysis is required, it will be indicated on the attachment after all amounts have been entered. Ensure that these variances are fully explained in the space provided.

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**Determining  
value**

Use the following table to determine if a physical count is needed.

<b>If inventories are...</b>	<b>Then a physical inventory is required?</b>
1. <b>Not</b> reported in a financial statement template <b>and</b> the amount as of June 30 is expected to be greater than \$1,000,000 <b>and all</b> of the following conditions exist: <ul style="list-style-type: none"><li>• A complete annual physical inventory is impractical</li><li>• Maintain a perpetual inventory system</li><li>• Adopted a proper technique for performing an ongoing physical inventory of all material individual items throughout the year</li><li>• Adopted a statistical sampling technique to estimate the quantities of goods on hand at a particular date</li></ul>	No
2. <b>Not</b> reported in financial statement template <b>and</b> the amount as of June 30 is expected to be greater than \$1,000,000 <b>and not exempted above.</b>	Yes

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**Note:**

If State or Federal regulations apply to the inventory, evaluate those regulations when determining whether to perform a physical inventory count. **Donated food**, although not reported on the financial statements, must still be counted for Federal reporting purposes.

If a physical count is necessary, carefully plan the physical count, perform the count in an efficient and systematic manner, and determine the value of inventory.

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**Pricing  
methods**

The agency must use a pricing methodology acceptable by generally accepted accounting principles, which requires inventories to be reported at the lower of cost or market. The most commonly used method is FIFO (first in, first out).

Inventory should be reduced to net realizable value by eliminating the value of items noted as obsolete, defective, excessive, or slow moving. Also, exclude consigned and / or donated inventory.

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**Adjusting entry**

Most agencies record inventory items as expenditures when purchased (the purchase method).

For the CAFR, inventories are reported using the consumption method. This method requires that inventory items used in operations be reported as assets when acquired and recognized as expenditures when used.

To properly record inventory and expenditures, the following adjustment is usually necessary.

Debit: Inventory	XX	
Credit: Expenditures		XX

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